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Public Instruction

Average Daily Membership Audit Report Blue Ridge Unified School District No. 32 Fiscal Years 2004, 2005, and 2006

Report Number 08-02

December 21, 2007

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ARIZONA DEPARTMENT OF EDUCATION

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Tom Horne
Superintendent of
Public Instruction

December 21, 2007

Governing Board
Superintendent
Blue Ridge Unified School District No. 32
1200 W. White Mountain Blvd.
Lakeside, AZ 85929-0885

Dear Members of the Board and Superintendent:

The Arizona Department of Education Audit Unit has conducted a limited scope Average Daily Membership audit of the Blue Ridge Unified School District No. 32, for Fiscal Years 2004, 2005, and 2006. The purpose of the audit was to determine whether the District should have received state aid for students participating in school programs after having graduated or having met graduation requirements.

The audit found that the District should not have received state aid for many of these students, either because they had already met graduation requirements, or were not offered sufficient services to warrant state aid.

The audit becomes final 30 days after issuance, unless the District files an appeal. Appendix A in the report provides rules governing the appeals process.

We appreciate the excellent cooperation and assistance provided by the Superintendent and staff during the course of the audit. My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Arthur E. Heikkila
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted a limited scope Average Daily Membership (ADM) audit of the Blue Ridge Unified School District, pursuant to the provisions of Arizona Revised Statutes A.R.S. §§15-915, 15-239, and Session Laws 2006, Chapter 353, H.B. 2874, Section 23, for Fiscal Year 2007, and Session Laws 2007, Chapter 264, H.B. 2790, Section 17, for Fiscal Year 2008. This audit focused on whether it was appropriate for the District to receive state aid for students who have either enrolled in the PLESE Program or the YTP Program.

Attendance audits help ensure appropriate distribution of state aid to schools. Since ADE distributes over \$5 billion annually in public school funding to schools based on attendance and other factors, it is important that schools accurately report their student count to ADE.¹ However, if a school's student count is inaccurate, that school could then receive an incorrect amount of monies from ADE. Attendance audits determine if schools are receiving the correct amount of state aid based on their reported attendance. If the audit determines that an incorrect amount of state aid was distributed to a district based on incorrect attendance information, ADE will make the correction by adjusting a future payment or payments to the school.

The Blue Ridge Unified School District is located in southern Navajo County, and its District offices and schools are in Pinetop, Arizona. A five-member board governs the District. In FY2005-06 the Blue Ridge District enrolled over 2,700 students in 4 schools, offering education for students in kindergarten through high school. The following table provides the District's financial, student and staffing information for FY2004, FY2005, and FY2006.

Table 1

**Blue Ridge Unified School District
Students, Staffing, Revenues and Expenditures
FY2004, FY2005 and FY2006
(Unaudited)**

	FY2004	FY2005	FY2006
Students Enrolled	2,636	2,750	2,779
Staff			
Certified	174	171	187
Classified	117	121	119
Total Staff	291	292	306
Revenue			
Local	\$ 9,553,578	\$ 9,391,442	\$ 9,529,372
State	\$ 6,604,584	\$ 7,766,624	\$ 7,849,269
County	\$ 152,595	\$ 156,627	\$ 182,667
Federal	\$ 2,189,456	\$ 2,014,117	\$ 2,128,216
Total Revenues	\$ 18,500,213	\$ 19,328,810	\$ 19,689,524
Total Expenditures	\$ 17,284,532	\$ 18,995,770	\$ 19,351,874

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2004, FY2005, and FY2006.

¹ School districts are funded based on "student count" which is defined in A.R.S.§15-901(14) as Average Daily Membership for the fiscal year prior to the current year.

The Blue Ridge District offers two programs intended to help prepare students for work after graduation. One of these programs, called Program for Learning with Extended Support in Education, or “PLESE”, was initiated in 1999. According to the District, the PLESE program provides assistance to students as they transition from high school to the workforce. To enroll in the program, students had to agree to delay their high school graduation. Students would then exit the program either when they finished the program, quit the program, or when they reached the age of 22. Once enrolled in the program, students attended the local community college in a chosen vocational area. In addition, depending on their academic performance, the District would reimburse students up to 100% of their tuition and book expenses. The District submitted attendance information for PLESE students to ADE, and subsequently received state aid based on that information.²

The second program, called the Youth Transition Program, or YTP Program, was designed to help students with disabilities find and maintain work in the community. Program oversight and administrative costs were funded with a federal grant from the Arizona Department of Economic Security, and a required partial matching of district local funds. The funding provided for a YTP Program coordinator. As with the PLESE program, the District also submitted attendance information for these students to ADE, and subsequently received state aid based on that information. Table 2 shows the number of students enrolled in both programs for FY2004, FY2005, and FY2006.

Table 2

**Blue Ridge Unified School District
Total Students Enrolled in the PLESE and YTP Programs
FY2004, FY2005 and FY2006**

Program	FY2004	FY2005	FY2006
PLESE	32	38	30
YTP	<u>28</u>	<u>21</u>	<u>23</u>
Total	<u>60</u>	<u>59</u>	<u>53</u>

Source: ADE Audit Unit analysis of attendance and enrollment information provided by the Blue Ridge Unified School District.

²

Arizona’s schools receive monies from the State based on student attendance and other factors. Schools are required every 20 days to submit daily attendance information to ADE for each student enrolled. Attendance information is used by ADE to calculate Average Daily Membership (ADM). ADE then calculates a school’s basic state aid payment based on ADM and other factors and distributes these monies to schools ten times annually.

SCOPE AND METHODOLOGY

The audit reviewed whether the District should have received state aid for students who were in either the PLESE Program or the YTP Program.

Staff from ADE's Audit Unit and Exceptional Student Services Unit (ESS) performed the audit. Audit Unit staff performed the Average Daily Membership component of the audit and ESS staff reviewed the special education aspect of the audit. To gain an understanding of the PLESE and YTP programs, district administrators and staff were interviewed and district guidelines for the programs were reviewed. Moreover, auditors reviewed District student information for students in the PLESE and YTP programs, including student files, attendance records, enrollment and withdrawal forms, and transcripts.

- To determine whether the District's PLESE and YTP programs were eligible to receive state monies, auditors used several methods. First, auditors reviewed attendance information from ADE's Student Accountability Information System (SAIS) to identify the number of students in the PLESE and YTP programs. Additionally, auditors reviewed pertinent statutes and ADE guidelines regarding attendance and graduation, and obtained District graduation guidelines and graduation lists to determine whether students in the programs had met graduation requirements. Finally, auditors consulted with staff from the Arizona Attorney General's Office to obtain legal input regarding statutory graduation and state aid funding requirements.
- To determine whether the District should have received funding for students enrolled in the PLESE Program, auditors reviewed the PLESE Program guidelines, conducted interviews with District administrators, reviewed 100 student records, and reviewed graduation lists for FY2003-2006.
- To determine whether the District should have received funding for special education students who have enrolled in the YTP Program, ESS staff reviewed Individualized Education Plans (IEPs) for 72 students enrolled in the program for the fiscal years audited. This review determined the types of services provided, the amount of time specified for the services, and whether the IEP's were appropriately written based on federal and state requirements.

The Audit Unit expresses its appreciation to the Blue Ridge Unified School District Superintendent and staff members as well as the Exceptional Student Services Unit from the Arizona Department of Education for their cooperation and assistance throughout the audit.

FINDING 1: THE BLUE RIDGE UNIFIED SCHOOL DISTRICT'S POST-HIGH SCHOOL "PLESE" PROGRAM NOT ELIGIBLE FOR STATE AID FUNDING

The District should not have received state aid for its PLESE program. According to statutory guidelines, programs such as PLESE with students who have already graduated or met graduation requirements are not eligible to receive state aid. In addition, the District improperly delayed these students' graduation and did not follow statutory requirements for taking attendance. Further, state aid for the program exceeded estimated program expenditures. As a result, ADE should decrease the District's Basic State Aid for FY2004, FY2005, and FY2006 by a total of 82.96 ADM, or \$388,998.30.

PLESE Program Ineligible for State Aid

The Blue Ridge District's PLESE program did not qualify for state aid. Specifically, the District did not ensure that students enrolled in the PLESE program met the following statutory requirements to receive public school funding: 1) not graduated from the highest grade taught in the school district; 2) enrolled in at least a full-time instructional program of subjects that count towards graduation; 3) enrolled in a full-time instructional program of at least 720 hours per year; and 4) actually and physically in attendance and carrying four subjects that count towards graduation. In summary, the students that the District enrolled in the PLESE program and submitted attendance information to ADE had already met graduation requirements and were attending the local community college.³

For FY2004, FY2005, and FY2006, a total of 82.96 ADM were enrolled in the PLESE program and thus over reported to ADE by the District. This translates into \$388,998.30 in monies that ADE should recover from the District as shown in Table 6 (see page 10).

³ Public school funding is primarily calculated based on the number of students physically attending the school ("ADM"). A.R.S. §15-901 et seq. A district's apportionment of state funds is based, in part, on the average daily attendance of its enrolled students. Id. Arizona law defines a "full-time student" as, a student not graduated from the highest grade taught in the school district, or an ungraded student at least fourteen years of age by September 1, and enrolled in at least a full-time instructional program of subjects that count toward graduation as defined by the state board of education in a recognized high school. A.R.S. §15-901(A)(2)(b)(iii). (Emphasis added). Arizona law defines a "full-time instructional program" as, an instructional program that meets at least a total of seven hundred twenty hours during the minimum number of days required and includes at least four subjects each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty-three hours a year, or the equivalent, or one or more subjects taught in amounts of time totaling at least twenty hours per week prorated for any week with fewer than five school days. A.R.S. §15-901(A)(2)(c)(vi). Arizona law defines "daily attendance" as, actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent that count toward graduation in a recognized high school....Attendance of a pupil carrying less than the load prescribed shall be prorated. A.R.S. §15-901(A)(6)(d). See *Long v. Dick*, 87 Ariz. 25, 347 P.2d 581 (1959) (holding that high school pupils are in "daily attendance" when they are enrolled and are carrying four subjects and when they are also actually present) (Emphasis added).

District Inappropriately Delayed Students' Graduation and Did Not Follow Statutory Guidelines for Taking Attendance

In addition to receiving monies for students enrolled in an ineligible program, the District inappropriately delayed graduation for students enrolled in the PLESE program and did not follow statutory guidelines regarding taking attendance.

Although the District delayed graduation for students enrolled in the PLESE program, according to Attorney General Opinion I89-095, it did not have the statutory authority to do so. Instead of delaying students' graduation, the District should ensure that it properly exits all students that have either graduated or have met graduation requirements.

In addition to inappropriately delaying students' graduation, the District did not ensure that all students counted toward state equalization payments were enrolled and attending school in accordance with statutory requirements. Specifically, A.R.S. §15-901 requires that districts take student attendance daily. However, according to District officials, instead of taking attendance daily, the District's PLESE program coordinator only telephoned students at the 40th and 100th day attendance benchmarks to identify if they were still enrolled in the program. Because accurate attendance counts help determine the amount of state aid a district receives, the District should ensure that attendance is taken daily as required by statute.

State Aid Exceeded Program Expenditures

As a result of inappropriately receiving state monies for students enrolled in the PLESE program, the district received a significant amount of monies as compared to the program's expenses. In addition, the District may have violated state constitutional provisions by providing reimbursements to students.

For each of the three years audited, the District retained excess state aid ranging from approximately \$83,000, to \$172,000, annually for the three fiscal years audited, after paying staffing expenses and reimbursements to students. Table 3 (see page 6) provides student and financial detail for the years audited.

The District also inappropriately provided reimbursements for community college tuition and books to students enrolled in the PLESE program, and in doing so may have violated the State Constitution. Specifically, the Gift Clause in Article 9, section 7 of the Arizona Constitution prohibits government bodies from misusing public monies to fund special interests and non-public purposes. The Gift Clause states that:

“Neither the state, nor any county, city, town, municipality, or other subdivision of the state shall ever give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual”

For FY2004, FY2005, and FY2006, PLESE Program students received a total of \$31,669.73 in reimbursements. The District should in the future ensure that it does not inappropriately reimburse students for programs that are not eligible for state aid.

Table 3

**Blue Ridge Unified School District
PLESE Program Students, Audited ADM, Revenues and Expenditures
FY2004, FY2005, and FY2006**

	FY2004	FY2005	FY2006
Number of students Enrolled	32	38	30
Number of students Reimbursed	22	29	12
Audited ADM	26.35	36.56	20.05
Expenditures :			
Staffing ^a	\$ 2,458.65	\$ 2,494.50	\$ 2,675.50
Student Reimbursement ^b	\$ 9,917	\$ 4,501.73	\$ 7,251.00
Total Expenditures	<u>\$ 12,375.65</u>	<u>\$ 16,393.23</u>	<u>\$ 8,968.50</u>
Revenues from State Aid^c	<u>\$184,403.72</u>	<u>\$112,757.45</u>	<u>\$91,837.14</u>
Net Balance Retained	<u>\$172,028.07</u>	<u>\$ 96,364.22</u>	<u>\$82,868.64</u>

^a District-provided expenditure estimates. The District did not separately account for PLESE Program Expenditures.

^b District-provided expenditure information.

^c Estimated based on the PLESE Program's ADM portion of the Audit's state aid adjustment calculation for each fiscal year.

Source: Student and audited ADM information based on analysis of State and District attendance data.

Recommendations

1. Because the PLESE program does not qualify for state aid, the Arizona Department of Education should recover \$388,998.30 for FY2004, FY2005, and FY2006.
2. The District should exit students that have graduated or have met graduation requirements.
3. The District should ensure that all students counted toward state equalization payments are enrolled and attending school in accordance with the statutory requirements as described in A.R.S. §15-901.
4. The District should ensure that it does not inappropriately reimburse students for programs that are not eligible for state aid.

FINDING 2: THE DISTRICT SHOULD NOT HAVE RECEIVED STATE AID FUNDING FOR MOST STUDENTS IN THE YOUTH TRANSITION PROGRAM

In addition to inappropriately receiving state aid for the PLESE program, the District also inappropriately received state aid for its YTP program. Specifically, for FY2004, FY2005, and FY2006, the District overstated its ADM for students in the YTP program by 58.97, or \$300,828.97. The District should not have received most of the state monies for the YTP program because most of the students enrolled in this program had already met graduation requirements and therefore were not statutorily eligible for state aid. Finally, the audit identified a significant difference between the amounts of revenue received by the district for the YTP program as compared to the program's actual expenditures.

To address concerns with students with disabilities transitioning into the workforce, District officials implemented the Youth Transition Program. With partial funding provided by a federal grant through the Department of Economic Security, the District created a coordinator position to implement and oversee the program. The coordinator would help students find jobs in the community, and also contact the students to determine their status and provide any other assistance.

The District Should Not Have Received State Monies for Most YTP Students

The District should not have received state monies for most students enrolled in the YTP program. According to a review of the YTP students' Individualized Education Plans and student files, 70 of the 72 students enrolled in the program had already met graduation requirements, thus rendering them ineligible for the District to receive state monies. However, the District submitted attendance data for these students, and received state aid for them. As stated in Finding 1, (see page 4), statute does not allow state aid payment for students that have met graduation requirements. Therefore, ADE should recover \$300,828.97 in state aid from the District.

Additionally, similar to the PLESE program (see Finding 1, page 4), the District inappropriately delayed the graduation of some students who were enrolled in the YTP program. Again, according to an Attorney General opinion, the District does not have the authority to delay graduation for students who have met all graduation requirements. Instead of delaying their graduation, the District should ensure that it properly exits all students who have met graduation requirements.

Table 4 (see page 8) lists the number of students meeting graduation requirements and students found receiving appropriate services, along with the associated ADM overstatement for each category of student for each fiscal year.

Table 4

**Blue Ridge Unified School District
YTP Students and ADM Eligibility Analysis
FY2004, FY2005, and FY2006**

Fiscal Year Findings	FY2004	FY2005	FY2006
Met Graduation Requirements Before Enrollment in the YTP-Not Eligible	28	20	22
Eligible	<u>0</u>	<u>1</u>	<u>1</u>
Total YTP Students	<u>28</u>	<u>21</u>	<u>23</u>
ADM Overstatement	24.65	19.3	15.02

Source: Auditor analysis of District student and attendance records.

Program Revenues Exceeded Expenditures

Similar to the PLESE program, the District retained significant revenue from the YTP program for the three fiscal years audited. The District annually expended approximately \$35,000 in local funds during the audited years in order to receive a matching federal grant to administer the program. However, a review of the program's financial records found that program revenues from state aid and the federal grant far exceeded the program's expenditures. Specifically, Table 5 illustrates the YTP program's estimated revenues and expenditures for FY2004, FY2005, and FY2006.

Table 5

**Blue Ridge Unified School District
YTP Revenues and Expenditures for FY2004, FY2005, and FY2006
(Unaudited)**

	FY2004	FY2005	FY2006
Revenues			
State Aid Received ^a	\$172,506.70	\$ 59,524.58	\$ 68,797.69
Federal Grant Match ^b	\$134,848.00	\$129,341.25	\$131,060.63
Subtotal	<u>\$307,354.70</u>	<u>\$188,865.83</u>	<u>\$199,858.32</u>
Expenditures			
District Grant Match ^b	\$ 35,169.00	\$ 35,169.00	\$ 35,169.00
Program Expenditures ^c	0	0	0
Subtotal	<u>\$ 35,169.00</u>	<u>\$ 35,169.00</u>	<u>\$ 35,169.00</u>
Net Balance Retained	<u>\$272,185.70</u>	<u>\$153,696.83</u>	<u>\$164,689.32</u>

^a Does not include state aid received for the one student eligible for FY2005 and FY2006.

^b District-provided budget and expenditure information.

^c The District could not provide YTP Program expenditures because it did not separately account for them.

Source: Auditor analysis of District attendance and financial records.

Recommendations

1. The Arizona Department of Education should recover the \$300,828.97 in state aid that the District should not have received for the fiscal years audited.
2. The District should exit all students that have met graduation requirements.

ADM FUNDING ADJUSTMENTS

This audit identified \$689,827.28 of state aid that the District should not have received for the three fiscal years audited. Per statute, ADE needs to make these funding adjustments, and the District has several options. Statutes allow for a single adjustment to the District's next payment from ADE, the District can request the adjustment to occur over a 12 month period, or the District can request a 24 month period that would require approval by the State Superintendent for Public Instruction.

Additionally, statute and ADE's administrative rules provide for a formal appeals process through the Office of Administrative Hearings if the district disagrees with the audit results. Specifically, these guidelines give the district 30 days from the issuance of the audit to request an appeal, and rules that govern this process are in this report's Appendix A (see page a-i), for appeal rights and information.

Table 6 lists the ADM overstatement and funding adjustments for the District for FY2004, FY2005, and FY2006.

Table 6

**Blue Ridge Unified School District
ADM Overstatement and Funding Adjustments Required for
FY2004, FY2005, and FY2006**

	FY2004		FY2005		FY2006		Total	
	ADM	Amount	ADM	Amount	ADM	Amount	ADM	Amount
YTP	24.65	\$172,506.70	19.30	\$ 59,524.58	15.02	\$ 68,797.69	58.97	\$ 300,828.98
PLESE	<u>26.35</u>	<u>\$184,403.72</u>	<u>36.56</u>	<u>\$112,757.45</u>	<u>20.05</u>	<u>\$ 91,837.14</u>	<u>82.96</u>	<u>\$ 388,998.30</u>
Total	<u>51.00</u>	<u>\$356,910.42</u>	<u>55.86</u>	<u>\$172,282.03</u>	<u>35.07</u>	<u>\$ 160,634.83</u>	<u>141.93</u>	<u>\$689,827.28</u>

Source: Auditor analysis of SAIS and District student and financial data for FY2004, FY2005, and FY2006.

APPENDIX A

State Law For Appealing Audits

The audit adjustment determination pursuant to A.R.S. §15-915 is an agency action to which the District can file an appeal. The audit report and letter along with this information serve as notice of the District's appeal rights under A.R.S. §41-1092.04. The District's right to a hearing and right to an informal settlement conference are described below in the following sections of the Arizona Revised Statutes.

A.R.S. §41-1092.03. Notice of appealable agency action; hearing; informal settlement conference; applicability

- A. An agency shall serve notice of an appealable agency action pursuant to section 41-1092.04. The notice shall identify the statute or rule that is alleged to have been violated or on which the action is based and shall include a description of the party's right to request a hearing on an appealable agency action and to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appealable agency action by filing a notice of appeal with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appealable agency action and who exercised any right to comment on the action provided by law or rule, provided that the grounds for appeal are limited to issues raised in that party's comments. The notice of appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. The agency shall notify the office of the appeal and the office shall schedule a hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, and subsection F.
- C. If good cause is shown an agency head may accept an appeal that is not filed in a timely manner.

A.R.S. §41-1092.06. Appeals of agency actions; informal settlement conferences; applicability

- A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.
- B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.

